Should You Invest in Real Estate Stocks Right Now?

Description

The Canadian housing market "may be entering the later stages of its cyclical downturn," according to the Royal Bank of Canada's (RBC) recent monthly housing market update. Benchmark home prices dropped 1.2% in October to $756,200, per data released by the Canadian Real Estate Association, the smallest monthly decline since May. The bank expects prices to bottom out around spring. Could this be the signal to start buying Canadian real estate stocks?

Whether to invest in Canadian real estate stocks or wait until a confirmed rebound in sector asset prices should depend on your investment goals. Specifically, you should consider your investment objectives, chosen strategies to attain them, and opinion on the sector's outlook during your investment horizon.

Real estate prices have declined by about 10% from a February peak. However, asset values remain far higher compared to pre-pandemic levels. For instance, the benchmark home price remains 37.2% higher than February 2020 levels. Given rising interest rates and a potential economic slowdown, housing affordability is declining for buyers as borrowing costs soar.

However, investors with long-term (5-year plus) investment horizons have a good chance of earning respectable returns on real estate stocks. The **S&P/TSX Composite Real Estate (Sector)** Index has declined by 20.4% year to date. As a result, plenty of opportunities exist to buy the dip and profit on rebounds.

Why I'd invest in Canadian real estate stocks right now

Real estate plays several important (and sometimes critical) roles in an individual's retirement savings portfolio. Real estate stocks can add inflation resilience and augment passive income generation through reliable regular dividend payouts. Importantly, investors can improve portfolio diversification to reduce risk per unit of return by investing in real estate.

Investors could lock in good passive income yields from Canadian Real Estate Investment Trusts (REITs) right now while waiting for a sector rebound.

Further, real estate values have generally been appreciating for a century now. True, historical performance may not provide perfect predictions for future real estate price growth. However there's a high chance that the trend may persist. Capital gains could surely accrue to patient real estate stock investors.

Actually, a real estate sector decline in 2022 and its causal factors could be distant and forgotten memories a decade from now. Positive factors include population growth, rising real incomes, positive rates of household formations, and net immigration These long-term factors should continue to support strong real estate sector demand and positive investment returns over the long term.

A high-yield real estate stock to buy now for passive income

Dividend investors seeking exposure to high-quality real estate assets have choices in the Canadian market. Investors seeking growing income yields from reliable rental income, a growing asset portfolio, and an investment-grade balance sheet with low exposure to short-term interest rates could buy **CT Real Estate Investment Trust** (TSX:CRT.UN) units now before they recover.

CT REIT is a real estate income trust formed out of retail giant **Canadian Tire Corp's** vast real estate property portfolio. The trust owns a portfolio of 373 properties with more than 29,787,436 square feet of gross leasable area (GLA). The majority of which is leased to Canadian Tire – a 100-year-old profitable business with an investment grade rated balance sheet.

The REIT enjoys a robust 99.3% occupancy, an impressive data point for the trust's portfolio. It's fully leased out, and the weighted average remaining lease term increased from 8.6 years in June 2022 to 8.8 years by September. Investors will receive stable rent income for many years to come.

The REIT recently reported impressive 6.1% year-over-year growth in property revenue and a 5.4% increase in net operating income during the third quarter. It derives a growing income base from rent increases and portfolio reinvestments. What's more, the trust has been increasing its monthly income distributions (dividends) to investors every year for nearly a decade.

CT REIT's current distribution yields a respectable 5.5% annually. The distribution is well-covered given a low payout rate of 74.3% of the portfolio's adjusted funds from operations (AFFO). Chances are high that management will raise the payout again in 2023.

Most noteworthy, CT REIT has no short-term concerns over rising interest rates.. The trust has a low 40.6% debt ratio. Most of the debt is fixed-rate debt with an average maturity of 6.5 years. CT REIT investors will not have to worry about rising borrowing costs if interest rates rise for a long time.

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1. TSX:CRT.UN (CT Real Estate Investment Trust)

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brianparadza